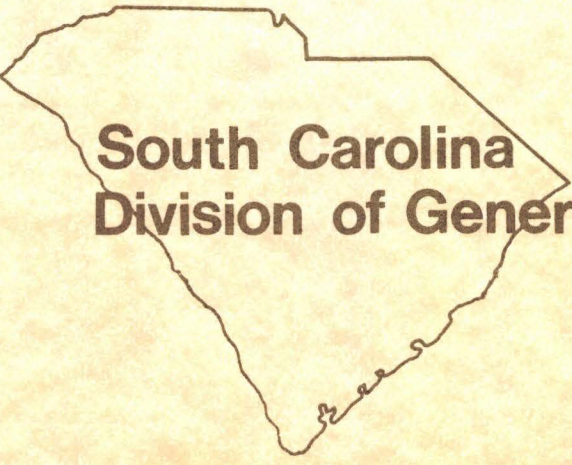


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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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STATE DOCUMENTS

THE CITADEL

AGENCY

DECEMBER 30, 1985

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 758-3150

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WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

December 30, 1985

Mr. Tony Ellis
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final Citadel audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant The Citadel two (2) years certification as outlined in the audit report.

Sincerely,

Richard W. Kelly, Director
Agency Certification and
Engineering Management

/db

Attachments

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CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR
June 13, 1985

Richard W. Kelly, Director
Agency Certification and
Engineering Management
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of The Citadel for the period September 1, 1982 - March 31, 1985. As part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The administration of The Citadel is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The

objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions, enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the college in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy
R. Voight Shealy, Director
Audit and Certification

INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of The Citadel.

Our on-site review was conducted April 16, 1985, through May 19, 1985, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with

clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The Budget and Control Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The materials management office shall review the respective governmental body's internal procurement operations, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

Our audit was performed primarily to determine if certification is warranted for these requested increased limits:

<u>Category</u>	<u>Requested Limit</u>
1. Goods and Services	\$10,000
2. Consultant Services	\$10,000
3. Construction	\$30,000
4. Information Technology	\$10,000

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of The Citadel and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Audit and Certification team of the Division of General Services statistically selected random samples for the period July 1, 1983 - March 31, 1985, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and accompanying regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) reporting of Fiscal Accountability Act;

- (10) warehousing, inventory and disposition of surplus property;
- (11) economy and efficiency of the procurement process;
and
- (12) approval of Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of The Citadel produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Consultant and Contractual Services</u>	9
Eight consultant and contractual services procurements were made without competition or sole source determinations.	
II. <u>Compliance - Construction and Related Services</u>	10
A construction project was incorrectly classified as exempt from the requirements of the Procurement Code.	
III. <u>Compliance - Information Technology</u>	12
In three cases expenditures for equipment maintenance exceeded The Citadel's certification limit.	
IV. <u>Compliance - Goods and Services</u>	14
One procurement was not supported by the required number of quotes.	
V. <u>Compliance - Leases</u>	15
The Citadel did not obtain the required approvals for two leases.	
VI. <u>Compliance - General</u>	16
Accounts payable did not notify purchasing of all billing discrepancies.	

RESULTS OF EXAMINATION

I. Compliance - Consultant and Contractual Services

The Citadel procured consultant services without obtaining competition or preparing sole source determinations. Eight of twenty-two transactions tested in our sample did not have documented competition or sole source determinations. See Appendix A for the list.

Four procurements were for insurance coverage and two were associated with the College's accreditation. The final two procurements were for the services of temporary employees hired to teach scholastic aptitude tests (SAT).

To complicate matters, two procurements exceeded The Citadel's certification limit of \$2,500 and must be ratified in accordance with Section 19-445.2015 of the regulations.

The expenditures for accreditation were in connection with visits to The Citadel by evaluation teams from the Southern Association of Colleges and Schools and the Accreditation Board for Engineering and Technology, Inc. These expenditures were required in order to maintain the College's accreditation.

Since the expenditures are mandatory and because these associations are the only sources for these accreditations, we recommend that The Citadel formally request that the services be exempted from the Consolidated Procurement Code. A request should be processed through the Materials Management Officer to the State Budget and Control Board. The Office of Audit and Certification will support the exemption request.

RESPONSE

Reference: Eight transactions found not to be in compliance with Code requirements of documented competition or sole source determinations.

A. None of the referenced procurement transactions were routed to or reviewed by The Citadel's procurement department. These transactions were treated as "non-procurement" actions by the College. Since the conduct of the audit examination, The Citadel has changed expenditure review procedures to insure that all requests for expenditure of funds are reviewed for Procurement Code compliance and acted upon by the Procurement Office if appropriate.

B. The two procurement transactions which exceeded The Citadel's certification limits were expenditures for accreditation (ABET and SACS) and are, in fact, sole source required expenditures. A request for ratification of these transactions has been submitted to the Materials Management Officer. A request for exemption of these types of expenditures has also been submitted through the Materials Management Officer to the State Budget and Control Board for consideration.

II. Compliance - Construction and Related Services

Most of the procurements for construction project number H09-8485, Stadium Restroom and Press Box Renovations, were not

made in compliance with the Procurement Code. After establishing this project as a permanent improvement, The Citadel interpreted Section 11-35-710(f) of the Procurement Code as exempting all procurements using funds derived wholly from athletic contests. However, the exemption clearly states that it does not apply to construction procurement.

At the time of our audit, the following procurements of services and materials totalling \$25,516.98 had been made without sufficient competition.

<u>Purchase Order Number</u>	<u>Amount</u>
37623	\$1,485.21
38504	1,918.35
38506	1,668.66
38510	695.06
38511	2,559.11
38513	7,899.00
38519	3,150.00
38522	3,669.05
38527	1,948.38
38529	524.16

Four of these exceed The Citadel's procurement authority of \$2,500.00 so they must be ratified in accordance with Section 19-445.2015 of the regulations.

We caution The Citadel on interpretations of the exemptions allowed by the Procurement Code. In the future, the State Engineer, the Materials Management Officer or the Audit and Certification staff should be consulted when in doubt.

RESPONSE

Reference: Procurement transactions for Stadium Restroom and Press Box Renovations under Project Number H09-8485.

A. The Director of Procurement Services judged these transactions as procurement of "goods and materials" and not "construction" thereby qualifying them as exempt under the provisions of the Code. It is apparent now, that he erred in that determination and therefore these transactions were not handled in accordance with statutory requirements.

B. The four transactions which exceeded The Citadel's current procurement authority have been submitted to the Materials Management Officer for ratification action. Additionally, The Citadel will exercise extreme caution in this area of procurement in the future and consult accordingly with the Materials Management Office and audit certification staff when in doubt.

III. Compliance - Information Technology

Our examination of procurements in information technology consisted of a sample of sixty transactions. The majority of these transactions were in agreement with the Code; however, The Citadel made expenditures for maintenance of information technology equipment that exceeded the College's certification limit of \$2,500.00. These may be sole source procurements but the proper determinations were not prepared.

<u>Voucher Number</u>	<u>Monthly Amount</u>	<u>Annual Amount</u>
06297	\$ 893.12	\$10,717.44
00711	802.24	9,626.88
08497	418.95	5,027.40
		<u>\$25,371.72</u>

Section 19-445.2000, Subsection C, of the regulations, restricts direct procurements above \$2,500 to certified agencies. In addition, Section 11-35-1560 of the Consolidated Procurement Code requires a written determination for each sole source procurement.

Internal procurement policy of The Citadel does not require the review of equipment maintenance expenditures by the Director of Procurement Services. As a result, sole source determinations were not prepared for the listed transactions, and, as such, these expenditures represent unauthorized procurements.

The Citadel must request that these procurements be ratified by the Materials Management Officer in accordance with Section 19-445.2015 of the regulations. In addition, The Citadel should adopt a policy requiring the Director of Procurement Services to review equipment maintenance procurements and their corresponding contracts.

RESPONSE

Reference: Expenditures for maintenance contracts on information technology equipment not documented for sole source determination.

- A. The reference contracts were established several years ago and were not routed to or reviewed by the Procurement Office for action. All requests for expenditures for maintenance contracts are now being review for compliance and appropriate action by the Procurement Office as a matter of routine.

B. The three procurement transactions which exceeded The Citadel's expenditure certification have been submitted to the Materials Management Officer for ratification action.

IV. Compliance - Goods and Services

Our examination of sixty randomly selected transactions in the goods and services area identified one procurement that was not made in compliance with the Consolidated Procurement Code and regulations. Two quotes were obtained for a procurement of \$1,843.92 on purchase order number 31080.

Regulation 19-445.2100 requires solicitation of written quotations from three qualified sources of supply for purchases from \$1,500 to \$2,499.99. An oversight by Procurement Services resulted in insufficient competition for this procurement.

We recommend strict adherence to the competitive requirements of the Consolidated Procurement Code and regulations.

RESPONSE

Reference: One procurement transaction found not in compliance with the competitive documentation requirements of the Code.

A. The reference transaction was an unfortunate oversight by the Procurement Office. The procurement staff, as a matter of standard, exercises great care and attention to detail in insuring that all procurement actions are fully documented in accordance with Code/Regulatory require

ments. The procurement staff has redoubled their commitment and self audit of documentation requirements.

V. Compliance - Leases

The College failed to obtain the approval of the Division of General Services for the leases of a parking lot and baseball complex from the City of Charleston.

Section 19-445.2120 of the regulations requires the approval of all leases by the Real Property Management Section of General Services.

During our audit visit, the Director of Procurement Services contacted the Real Property Management Section to work out the details and effect compliance.

RESPONSE

Reference: Leases for parking lot and baseball complex had not been reviewed and approved by the Division of General Services.

A. The referenced leases were initially executed several years ago and renewals were not routed to or reviewed by the Procurement Office for action. All expenditure requests for leasing of real property are now being reviewed by the Procurement Office and routed to Mr. Jack Sprott, Real Property Management Section, Division of General Services.

B. Additionally, Mr. Sprott has verbally approved the referenced leases and has indicated that a recent State Budget and Control Board ruling exempts prior submission and approval of leases which incur expenditures of less than \$5,000.00 per year or leases which are no more than

three (3) months duration. However, such lease agreements must be reported to his office on a yearly basis. The Citadel has forwarded the referenced leases to his office for compliance with this agency's yearly reporting requirements.

VI. Compliance - General

During the course of our audit, we noted several instances in which internal procurement policy was not followed by the Accounts Payable Section.

Purchase orders number 36186 for \$2,957.20 and number 37221 for \$1,399.53 were paid for \$3,161.60 and \$1,473.33 respectively. In addition, individual invoices for \$244.84 and \$220.74 were paid against blanket purchase agreement number 36996 which specified a limit of \$150 per purchase.

Section 2.8.6 of The Citadel's Procurement Services Manual states in part:

Accounts payable section shall refer all invoice discrepancies for purchase orders with a total payable amount of greater than \$500...to the purchasing office for contract review.

Adequate internal controls also require accounts payable to compare invoices to blanket purchase agreements for dollar limitations. Failure of the Accounts Payable Section to comply with these internal control requirements resulted in the payment of purchase orders in excess of the vendor's quotes and misuse of the blanket agreements.

The Accounts Payable Section should comply with The Citadel's Procurement Services Manual and exercise due care in the payment of invoices for blanket purchase agreements.

RESPONSE

Reference: Internal Controls compliance by Accounts Payable Section concerning Blanket Purchase Agreements and procurement review of purchase order/vendor invoice discrepancies.

- A. The Controller's Office has insured that future internal procurement review of Blanket Purchase Agreements and purchase order/vendor billing discrepancies will be complied with by the Accounts Payable Section in accordance with Citadel procurement procedure/policy.
-

CERTIFICATION RECOMMENDATIONS

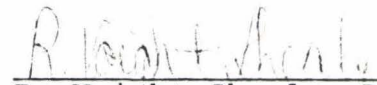
As enumerated in our transmittal letter, corrective action based on the recommendations in the body of this report, we believe, will in all material respects place The Citadel in compliance with the State Consolidated Procurement Code and ensuing regulations.

Prior to December 31, 1985, the Office of Audit and Certification will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken by the College. Based on the follow-up review, and subject to this corrective action, we will recommend that The Citadel be certified to make direct agency procurements for a period of two years as follows:

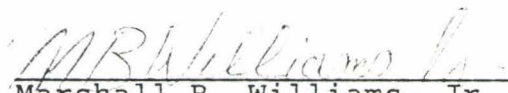
<u>Procurement Area</u>	<u>Recommended Certification Limit</u>
I. Goods and Services procurements excluding printing equipment which must be approved by the Division of Information Resource Management.	\$10,000 per purchase commitment
II. Consultant Services Not to exceed \$10,000 to one person or firm within a twelve month period.	\$10,000 per purchase commitment
III. Information Technology Procurements made in accordance with the Information Technology Certification Criteria and Constraints and excluding printing equipment which must be approved by the Division of Information Resource Management.	\$10,000 per purchase commitment

This would result in The Citadel handling 98.5% of their procurement transactions.

Certification recommendations in the area of Construction and Related Services is being deferred until completion of statewide procedures in this area.



R. Voight Shealy, Director
Audit and Certification



Marshall B. Williams, Jr.
Senior Assistant

Appendix A

The Citadel
Consultant and Contractual Services
Procured Without Competition or
Sole Source Determinations

1. INSURANCE:

<u>Requisition Number</u>	<u>Voucher Number</u>	<u>Amount</u>
78987	7519	\$ 803.00
79765	1443	2,129.00
74477	1989	875.00
79787	2405	1,614.00

2. ACCREDITATION:

<u>Requisition Number</u>	<u>Voucher Number</u>	<u>Amount</u>
87182	13878	\$3,097.05
87166	11451	2,775.00

3. TEACHING:

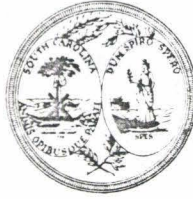
<u>Requisition Number</u>	<u>Voucher Number</u>	<u>Amount</u>
61631	10950	\$562.50
61632	10951	562.50

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EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

December 30, 1985

Mr. Richard W. Kelly
Director of Agency Certification
and Engineering Management
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

We have returned to The Citadel to determine the progress made toward implementing the recommendations in our audit report covering the period September 1, 1982 through March 31, 1985. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that The Citadel has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. We feel that, with the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We, therefore, recommend that the certification limits as outlined in the audit report, be granted for a period of two (2) years.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

/db

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